

D.T.E. 03-37

Petition of Bay State Gas Company, pursuant to G.L. c. 164, § 94A, for approval of a Precedent Agreement and related Letter Agreement governing Bay State's acquisition of capacity associated with Algonquin Gas Transmission Company's new Hubline Project.

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Limited Participant

I. INTRODUCTION

On March 25, 2003, Bay State Gas Company (“Bay State” or “Company”), pursuant to G.L. c. 164, §§ 76 and 94A, submitted a petition (“Petition for Approval”) to the Department of Telecommunications and Energy (“Department”) for approval of a Precedent Agreement (“Hubline Precedent Agreement”) between Bay State and Algonquin Gas Transmission Company (“Algonquin”) and related Letter Agreement, which govern Bay State’s acquisition of capacity associated with Algonquin’s Hubline Project. Under the terms of the Hubline Precedent Agreement, Bay State will receive firm transportation from Algonquin with a negotiated rate. This case has been docketed as D.T.E. 03-37.

On May 9, 2003, pursuant to notice duly issued, the Department conducted a public hearing to afford interested persons the opportunity to comment on the Company’s proposal. The Department granted the Petition for Leave to Participate as a Limited Participant of KeySpan Energy Delivery New England. On June 5, 2003, the Department held an evidentiary hearing. The Company presented the sworn testimony of Francisco C. DaFonte from NiSource Corporate Services, who is the Director of Energy Supply Services for Bay State. The evidentiary record consists of ten exhibits, consisting primarily of Bay State’s responses to information and record requests. On June 16, 2003, the Company submitted a brief.

II. DESCRIPTION OF THE COMPANY’S PROPOSAL

The Company submitted the Hubline Precedent Agreement and related Letter Agreement for incremental capacity with Algonquin. The Hubline Precedent Agreement

includes firm transportation on the Hubline Pipeline Project¹ for up to 20,000 Dth/day pursuant to Rate Schedule AFT-1 for a term of ten years beginning on November 1, 2003 (Exh. BSG-1, at 5; Exh. BSG-1, exh. FCD-1). The Hubline Precedent Agreement also includes an Algonquin financed meter station off of the Company's facilities in Sharon, Massachusetts, which will provide a new delivery point with needed pressure support in a constrained section of Bay State's distribution system (Petition for Approval, at 2; Exh. BSG-1, at 5; Exh. BSG-1, exh. FCD-1; Exh. BSG-1, exh. FCD-4; Exh. BSG-1, exh. FCD-4, exh. A; Company Brief at 2-3). The primary conditions precedent in the Hubline Precedent Agreement are:

- (1) Algonquin and Bay State receive all necessary government and regulatory approvals;
- (2) Maritimes Phase III expansion is completed; (3) Bay State's facilities are prepared to receive service off of Hubline; and (4) the Hubline construction is complete by August 1, 2004 (Exh. BSG-1, at 6).

The Letter Agreement contains a negotiated fixed rate for the ten year duration of the Hubline Precedent Agreement as well as the negotiated terms regarding the Algonquin financed meter station (Exh. BSG-1, exh. FCD-4, at 1-2; Exh. BSG-1, exh. FCD-4, exh. A; Sealed Tr. at 17).

¹ Algonquin's Hubline Pipeline Project extends approximately 30 miles from an interconnection with the Maritimes and Northeast Pipeline ("Maritimes") near Beverly, Massachusetts to the Algonquin system in Weymouth, Massachusetts. Hubline provides the means for delivery of Canadian supplies from both Sable Island and Western Alberta into the Eastern end of the Algonquin system (Exh. BSG-1, at 4-5; Petition for Approval, at 2; Company Brief at 1-2).

The Company explained that deliverability to Bay State's Brockton division is constrained and incremental capacity is required to meet growing demands² (Petition for Approval, at 1-2; Exh. BSG-1, at 3; Tr. at 10-11). The Company reached its decision to acquire additional capacity on the Hubline Pipeline Project after applying the resource planning process approved in the Company's two most recently approved Forecast and Supply Plans ("F&SP") (Exh. BSG-1, at 3, 9-13; Exh. BSG-1, exh. FCD-8; Exh. BSG-1, exh. FCD-9; BSG-2; Tr. at 11).

Prior to reaching its decision to contract for Hubline capacity, Bay State solicited citygate service from potential suppliers by means of a request for proposals³ ("RFP") (BSG-1, at 14-18; Exh. BSG-1, exh. FCD-5; Exh. BSG-1, exh. FCD-6; Exh. BSG-1, exh. FCD-7; Tr. at 11). Eight of the recipients of the Company's RFP provided bids (BSG-1 at 17). Of these eight entities, only five bid on citygate supplies (id.). The Company used its SENDOUT model to perform its analysis and evaluate the options presented to it, including the acquisition of capacity on the Hubline (Exh. BSG-1, at 18-20). In addition, Bay State performed non-cost analysis of the proposals by evaluating the reliability, flexibility and viability of all available alternatives (Exh. BSG-1, at 20; Exh. BSG-1, exh. FCD-8).

² The Company states that its Brockton division's estimated firm peak day requirements have grown by approximately 14 percent since 1994, when the last incremental pipeline capacity was added to that service area (Exh. BSG-1, at 13; Company Brief at 8).

³ The Company issued its RFP to 26 potential suppliers (see Exh. BSG-1, exh. FCD-7).

III. DISCUSSION

A. Standard of Review

In evaluating a gas utility's resource options for the acquisition of commodity resources as well as for the acquisition of capacity under Section 94A, the Department examines whether the acquisition of the resource is consistent with the public interest. Commonwealth Gas Company, D.P.U. 94-174-A at 27 (1996). In order to demonstrate that the proposed acquisition of a resource that provides commodity and/or incremental resources is consistent with the public interest, an LDC must show that the acquisition (1) is consistent with the company's portfolio objectives, and (2) compares favorably to the range of alternative options reasonably available to the company and its customers, including releasing capacity to customers migrating to transportation, at the time of the acquisition or contract renegotiation. Id.

In establishing that a resource is consistent with the company's portfolio objectives, the company may refer to portfolio objectives established in a recently approved resource plan or in a recent review of supply contracts under G.L. c. 164, § 94A, or may describe its objectives in the filing accompanying the proposed resource. Id. In comparing the proposed resource acquisition to current market offerings, the Department examines relevant price and non-price attributes of each contract to ensure a contribution to the strength of the overall supply portfolio. Id. at 28. As part of the review of relevant price and non-price attributes, the Department considers whether the pricing terms are competitive with those for the broad range of capacity, storage and commodity options that were available to the LDC at the time of the acquisition, as well as with those opportunities that were available to other LDCs in the region.

Id. In addition, the Department determines whether the acquisition satisfies the LDC's non-price objectives including, but not limited to, flexibility of nominations and reliability and diversity of supplies. Id. at 29.

B. Analysis and Findings

Bay State has demonstrated that deliverability to its Brockton division is constrained and incremental capacity is required to meet growing demands. The actual amount of incremental capacity necessary to meet these demands will be fully explored and resolved in the pending F&SP (D.T.E. 02-75)⁴ in which Bay State will be required to provide evidence of efficient portfolio management.

The Department notes that the Hubline Precedent Agreement is consistent with the portfolio objectives and the supply planning process established in the Company's most recent F&SP approved by the Department in Bay State Gas Company, D.T.E. 98-86 (2000). Bay State demonstrated that its planning process included a comprehensive solicitation of bids to determine the best-cost resource to satisfy the additional requirements of its Brockton division. Additionally, Bay State has shown that the Hubline Precedent Agreement compares favorably to the range of alternatives reasonably available to the Company and its customers. In reviewing the price attributes of the Hubline Precedent Agreement, the Department finds that the Hubline Precedent Agreement is preferable to Bay State's citygate alternatives and offers additional savings as a result of the Algonquin agreement to pay for the costs of a new meter

⁴ In D.T.E 98-86 the Company's forecasted design day demand for the Brockton division was 234,863 MMBtu/day. Bay State's most recently filed Forecast and Supply Plan forecasts design day demand for the same division at 217,591 MMBtu/day.

station in Sharon, Massachusetts. The evidence demonstrates that the Hubline Precedent Agreement offers superior reliability through primary point delivery to Bay State's Brockton division and enhances diversity by introducing a new pipeline supply to the Brockton division. The Department finds that the resource acquisition from the Hubline Project provides both price and non-price advantages compared to the alternative resource options. Additionally, the Department finds that the conditions of the Hubline Precedent Agreement and related Letter Agreement will enhance flexibility and diversity and will provide a cost-effective approach to managing system pressures in the Brockton division.

IV. ORDER

Accordingly, after due notice and consideration, it is hereby

ORDERED: That the Hubline Precedent Agreement and related Letter Agreement between Bay State Gas Company and Algonquin Gas Transmission Company, which govern Bay State's acquisition of capacity associated with Algonquin's Hubline Project, are approved.

By Order of the Department,

Paul B. Vasington, Chairman

James Connelly, Commissioner

W. Robert Keating, Commissioner

Eugene J. Sullivan, Jr., Commissioner

Deirdre K. Manning, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).